

Frederic W. Cook & Co., Inc.

New York • Chicago • Los Angeles

March 14, 2003

FASB Decides to Add
Stock Compensation Project to Agenda
The End of Opinion 25?

The Financial Accounting Standards Board (FASB), after reviewing constituent responses from its recent "Invitation to Comment," decided at its meeting on March 12, 2003 to begin immediately a new project on accounting for employee stock options and other stock-based compensation that presumably would lead to the end of Opinion 25. The FASB decided it would conduct the project in full cooperation with the International Accounting Standards Board (IASB) to achieve "maximum convergence" on a new standard, which likely would be an amalgamation of best provisions from the FASB's Statement 123 and the IASB's proposal on share-based payment. Importantly, the FASB "plans to start deliberating the key issues on this project at future public meetings with a view to issuing an Exposure Draft later this year *that could become effective in 2004*" [emphasis added].

In deciding to move forward with the fast-track project, the FASB considered a number of factors, including the (1) increasing complexity of Opinion 25 and its constant need for "repairs and maintenance," (2) concerns expressed by financial statement users to mandate the expensing of employee stock options, (3) lack of financial statement comparability because, while many large companies account for stock compensation under Statement 123, most do not, and (4) FASB's stated goal of international convergence of high-quality accounting standards. The FASB considered but rejected alternatives that would have either (1) deferred initiation of the project until completion of the FASB's "Liabilities and Equity" project or the IASB's share-based payment proposal, or (2) simply rescinded the Statement 123 provision allowing companies to continue to use Opinion 25.

The FASB acknowledges that the project is likely to be "costly, complex, and contentious," and has directed its staff to develop a timetable that first addresses the most difficult issues dealing with fair value measurement and attribution of compensation cost. In this regard, the FASB intends to explore ways to improve the "precision and accuracy" of measuring stock option costs as well as to require "additional informative disclosures." Presumably, less contentious issues dealing with exclusions from scope and nonemployee transactions would be dealt with last.

The transition provisions for any new stock-based accounting standard still need to be developed, but companies that are considering a *voluntary* transition to Statement 123 are reminded that the "prospective" transition method prescribed by Statement 148 will not be available for fiscal years beginning after December 15, 2003 (that is, calendar year companies that want the prospective method must transition during 2003).

* * * * *

General questions about this letter may be addressed to Thomas Haines at (312) 332-0910 or tmhaines@fwcook.com. Copies of this letter and other related letters on this topic are available on our website at www.fwcook.com under the following links:

- January 10, 2003 – FASB Issues Final Standard on Amendments to Statement 123 -- http://www.fwcook.com/alert_letters/1-10-03-FASBIssuesFinalStandard.pdf
- December 23, 2002 – FASB Releases Invitation to comment on IASB Share-Based Payment Exposure Draft -- http://www.fwcook.com/alert_letters/12-02FASBReleaseInvitationTo%5B1%5D....pdf
- October 11, 2002 – FASB Releases Exposure Draft on Amendments to Statement 123 -- http://www.fwcook.com/alert_letters/10-11-02FASBReleasesExposure....pdf
- March 20, 1996 – Compliance With The Footnote Disclosure Requirements of FAS 123 -- <http://www.fwcook.com/032096.html>
- November 8, 1995 – FASB Releases Final Standard on Accounting for Stock-Based Compensation -- http://www.fwcook.com/alert_letters/11895TMH.pdf